

FISCAL NOTE

Bill #: HB0605

Title: State land timber sale costs and revenue accounted for on sale basis

Primary Sponsor: Jayne, J

Status: As Introduced

| | | | |
|-------------------|------|---------------------------------|------|
| Sponsor signature | Date | Chuck Swysgood, Budget Director | Date |
|-------------------|------|---------------------------------|------|

Fiscal Summary

| | <u>FY 2004 Difference</u> | <u>FY 2005 Difference</u> |
|--|--------------------------------------|--------------------------------------|
| Expenditures: | | |
| General Fund (01) | \$75,252 | \$70,545 |
| Capital Projects (05) | \$17,388 | \$16,301 |
| Trust (09) Common School Permanent Fund | \$3,961 | \$3,713 |
| Net Impact on General Fund Balance: | (\$75,252) | (\$70,545) |

- | | |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact <input type="checkbox"/> Included in the Executive Budget <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns <input type="checkbox"/> Significant Long-Term Impacts <input checked="" type="checkbox"/> Needs to be included in HB 2 |
|---|--|

Fiscal Analysis

ASSUMPTIONS:

- The Dept. of Natural Resources and Conservation (DNRC) estimates that HB 605 will require 2.00 FTE to complete the increased work load in payroll services, accounts payable, budget monitoring, auditing, and reporting. Two analysts will be needed for budget analysis and accounting functions, one at the Forest Management Bureau and one at the Northwestern Land Office. Although timber sales and forest improvement activities also occur at the other four area offices, the timber program is most predominant in the western part of the state and DNRC believes that the Forest Management Bureau analyst could provide services for the eastern part of the state as well. These FTEs are projected at the entry level for budget analysts under Pay Plan 20 with full-time benefits. Operating expenses for the FTEs for FY 2004 include a computer at \$1,351 and an office package (desk, chair, file cabinet, etc.) at \$1,670 per employee.
- Additional printing costs and distribution costs of \$960 would be incurred each year to prepare the reports for each timber sale for the Land Board and for the annual reporting to the beneficiaries.
- Funding for personal services and operating costs will come from distributable timber sale receipts from the timber sale account, thus reducing the overall amount of distributable receipts for schools. Distributable timber revenues for FY 2002 were composed of 82 percent Common School revenues and 18 percent Public Building (Capital projects) revenue. Common School distributable revenues are split 95 percent to the Guarantee Account and 5 percent to the Common School non-distributable permanent fund. Therefore, the Public Building distributable revenue would be reduced by \$17,388 in FY 2004 and \$16,301 in FY 2005. The Common School Guarantee Account would be reduced by \$75,252 in FY 2004

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and \$70,545 in FY 2005. The Common School Permanent Fund would be reduced by \$3,961 in FY 2004 and \$3,713 in FY 2005.

| FY04 | | | | Guarantee | Permanent Fund |
|----------------------|-----|-----------------|-----------------|------------------|-----------------------|
| <u>Distributable</u> | | <u>Expenses</u> | <u>Total</u> | 95% | 5% |
| Common School | 82% | \$79,212 | \$79,212 | \$75,252 | \$3,961 |
| Capital projects | 18% | <u>\$17,388</u> | <u>\$17,388</u> | | |
| Total | | \$96,601 | \$96,601 | | |

| FY05 | | | | Guarantee | Permanent Fund |
|----------------------|-----|-----------------|-----------------|------------------|-----------------------|
| <u>Distributable</u> | | <u>Expenses</u> | <u>Total</u> | 95% | 5% |
| Common School | 82% | \$74,258 | \$74,258 | \$70,545 | \$3,713 |
| Capital projects | 18% | <u>\$16,301</u> | <u>\$16,301</u> | | |
| Total | | \$90,559 | \$90,559 | | |

4. This bill will impact a minimum of 70 trust land employees out of the total 125 Trust Land Management Division employees who currently work in the Forest Management and Forest Improvement Programs. Most of the employees are in field offices and are split funded, working in both the TLMD and the Forestry Division. Forestry division activities are wholly different from TLMD activities. Therefore, HB 605 will require employees to spend additional time “billing” hours instead of completing their timber sale duties.
5. A typical timber sale takes from three years to six years from the time it is listed as a proposed sale until brought to the Land Board for approval. After approval by the Land Board, the harvest typically takes between three and five years. The total typical time from inception to closure of a timber sale is six years, with some taking up to 11 years.
6. Due to the long-term nature of timber sale activities from inception to closure (approximately 6 years in duration), approximately 150 timber sale cost center organizations (orgs) would need to be added to the state-wide accounting system, maintained and expenditures accumulated over the complete span of the timber sale. This would significantly increase the number of cost center organizations that an employee would need to record their time and costs to and add a substantial level of complexity to monitoring budget levels and maintaining funding sources. The SABHRS system tracks costs on an annual basis and continues for one fiscal year thereafter. Special entries would be needed to accumulate individual timber sale costs over six to 11 years.
7. The DNRC Trust Land Management Division currently accounts for the activities of four bureaus and six area offices in three programs: 1) the Forest Management Program, which includes the timber sale activity, 2) the Land Administration Program, and 3) the Forest Improvement Program, which includes the forest improvement activities and is funded through forest improvement fees from the harvest of timber. If HB 605 were to pass, the TLMD would restructure the process for cost tracking, budgeting, and reporting for Forest Management and for Forest Improvement Programs (two of the three programs), in order to isolate the timber sale function from the standard accounting practices for the division.
8. The bill does not pertain to commercial permits (77-5-212, MCA).
9. In order to implement this bill, TLMD would need spending authority and authorization of the FTE.
10. The guarantee fund is distributed to public schools. The expenditures for schools are set in statute and general fund is used to for all expenditures above that available from the guarantee fund. This reduction in revenue will increase the amount of general fund required to fund schools.

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11. Interest generated by the Common school trust will be decreased by a small amount. This amount is assumed to be zero due to its size.

FISCAL IMPACT:

| DNRC - TLMD | FY 2004 | FY 2005 |
|---|--------------------------|--------------------------|
| | <u>Difference</u> | <u>Difference</u> |
| FTE | 2.00 | 2.00 |
| <u>Expenditures: Timber Sale Account</u> | | |
| Personal Services | \$89,599 | \$89,599 |
| Operating Expenses | <u>7,002</u> | <u>960</u> |
| TOTAL | \$96,601 | \$90,559 |
| <u>Funding of Expenditures:</u> | | |
| General Fund (01) | \$75,252 | \$70,545 |
| Capital Projects (05) | 17,388 | 16,301 |
| Trust (09) Common School Permanent Fund | <u>3,961</u> | <u>3,713</u> |
| TOTAL | \$96,601 | \$90,559 |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | |
| General Fund (01) | (\$75,252) | (\$70,545) |
| Capital Projects (05) | (\$17,388) | (\$16,301) |
| Trust (09) Common School Permanent Fund | (\$3,961) | (\$3,713) |

LONG-RANGE IMPACTS:

Over the last three fiscal years, the timber program has averaged a return of 2.05:1. This program has a return comprised of individual timber sales that return more or less than the overall program average. In some instances, timber prescriptions may be required that do not produce a profit in the short term, in order to optimize timber health and generation of merchantable timber over the long term. However, all harvest prescriptions are consistent with the State Forest Land Management Plan (SFLMP) program objectives. Tracking timber management costs as directed by HB 605 would increase management costs and thereby serve to reduce overall profitability of timber management activities. The additional tracking and reporting costs required by this bill will directly reduce the amount of revenue distributed to the trust beneficiaries.

TECHNICAL NOTES:

1. The DNRC Annual Report currently provides information required under New Section 1(a)(iv)(A)(C) on an annual basis.
2. New Section 1 (a)(iv)(B) requires the recording of the amount of sale revenue or income deducted for the deposit into the resource development account. The resource development funding source (02450) does not provide funding for the Forest Management or Forest Improvement Programs.
3. Regarding the New Section 1(a)(v), costs of most road construction and improvement, weed control, gating, and water and soil management controls are paid for by timber sale purchasers and already are reflected in their bids for timber sales. The price bid for timber is discounted by what the purchasers estimate their costs will be to comply with the conditions of the contract. The contract requires road construction, gates, soil and water mitigations, etc. It will not be possible to track these costs because they are not direct expenditures by the state.
4. In accordance with 77-1-223-225, MCA, DNRC already completes a Return on Asset Report for classified forest land, which accounts for all costs on an annual basis by trust beneficiary and by each land office.